

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House
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FISCAL IMPACT STATEMENT

LS 6986

BILL NUMBER: HB 1625

DATE PREPARED: Feb 16, 2001

BILL AMENDED:

SUBJECT: Income Tax Apportionment Factors.

FISCAL ANALYST: Diane Powers

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FUNDS AFFECTED: X

X

**GENERAL
DEDICATED
FEDERAL**

IMPACT: State

Summary of Legislation: This bill provides that, for purposes of the Indiana adjusted gross income tax, business income is apportioned based on the sales factor. The bill eliminates the property factor and payroll factor that are currently also used in apportioning income.

Effective Date: January 1, 2002.

Explanation of State Expenditures: The Department of State Revenue will have additional administrative expenses in revising tax forms, instructions, and computer programs to accommodate this change.

Explanation of State Revenues: Under the current statute, a company that conducts business in other states uses a three-factor formula to determine their Indiana corporate adjusted gross income and supplemental net income tax liability. The formula utilizes property, payroll and sales to allocate business income to the state. The current formula is the following:

$$\frac{\text{Indiana Property}}{\text{Total Property}} + \frac{\text{Indiana Payroll}}{\text{Total Payroll}} + \frac{2 (\text{Indiana Sales})}{(\text{Total Sales})}$$

This bill would eliminate the property and payroll factors in the apportionment formula along with the double weighting of the sales factor. The amount of a company's adjusted gross income would be determined by a single-factor formula which measures the percentage of Indiana sales to their total sales. The new formula would be the following:

$$\frac{\text{Indiana Sales}}{\text{Total Sales}}$$

Using a sample of 1998 corporate income tax returns, it was estimated that the change in the apportionment formula, as proposed by this bill, would decrease tax liabilities by 12.4%. This bill is effective for tax year beginning January 1, 2002, and would impact revenue collections starting in FY 2002 due to adjustments in

estimated quarterly payments. Based on the December 19, 2000, revenue forecast, this change in the apportionment formula could reduce revenue collections by \$116.4 M in FY 2003.

Corporate income taxes are deposited in the General Fund and the Property Tax Relief Fund.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Department of State Revenue.

Local Agencies Affected:

Information Sources: Department of State Revenue.